

Message Text

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PAGE 01 STATE 077228

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TO AMEMBASSY MANILA PRIORITY

INFO AMEMBASSY SEOUL

AMEMBASSY TAIPEI

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TAGS: ETRD, RP, KS, TW, TH

SUBJECT: COTTON CONTRACT PROBLEM

REFERENCE: A. MANILA 3638 B. STATE 73855

1. NAC HAS INFORMALLY APPROVED UP TO 10 MILLION ADDITIONAL CCC CREDITS FOR PHILIPPINES WITH THE UNDERSTANDING THAT WE WILL RECEIVE FROM GOP ASSURANCES SIMILAR TO THOSE REQUESTED FROM KOREA AND ROC. THESE ASSURANCES SHOULD BE IN THE FORM OF A LETTER WITH ATTACHED ANNEX TO YOU FROM GOP OFFICIAL WITH AUTHORITY TO COMMIT HIS GOVERNMENT. TEXT FOLLOWS EXCLUSIVE OF COMPLIMENTARY OPENINGS AND CLOSINGS.

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PAGE 02 STATE 077228

2. "(1) ALL CCC CREDITS FOR COTTON OUTSTANDING AS OF THE

DATE OF THIS LETTER OR GRANTED PRIOR TO JUNE 30, 1975, WILL BE UTILIZED EXCLUSIVELY TO FINANCE CURRENT U.S. COTTON CONTRACTS WITH A DATE OF SALE PRIOR TO AUGUST 1, 1974. THIS STIPULATION INCLUDES BOTH CONTRACTS WHICH ARE PAST DUE AS WELL AS CONTRACTS WITH DELIVERY DATES PRIOR TO THE END OF THE CURRENT MARKETING YEAR, JULY 31, 1975.

"(2) THE PHILIPPINE GOVERNMENT GUARANTEES THAT REPAYMENT DRAFTS, DRAWN BY CCC ON PHILIPPINE BANKS UNDER THE

APPLICABLE LETTERS OF CREDIT, WILL BE HONORED.

"(3) THE PHILIPPINE GOVERNMENT WILL TAKE WHATEVER MEASURES ARE NECESSARY TO ENSURE THE OPENING OF LETTERS OF CREDIT IN ACCORDANCE WITH THE FOLLOWING PROCEDURES:

(A) ALL SALES WILL BE LISTED BY MILL.
(B) FOR EACH MILL THE CONTRACTS WILL BE LISTED BY TYPE OF COTTON: TYPE A: 1-1/32 INCH AND SHORTER; TYPE B: 1-1/16 OR OVER; TYPE C: SAN JOAQUIN.
(C) UNDER EACH TYPE, SALES (CONTRACTS) WILL BE SEPARATED INTO FOUR PERIODS BASED ON THE DELIVERY DATE IN THE CONTRACT: PERIOD I - CONTRACTS WITH DELIVERY DATES PRIOR TO NOVEMBER 30, 1974, PERIOD II - CONTRACTS WITH DELIVERY DATES FROM DECEMBER 1, 1974 THROUGH FEBRUARY 28, 1975, PERIOD III - CONTRACTS WITH DELIVERY DATES FROM MARCH 1, 1975 THROUGH MAY 31, 1975, PERIOD IV - CONTRACTS WITH DELIVERY DATES FROM JUNE 1, 1975 THROUGH JULY 31, 1975.
(D) LETTERS OF CREDIT WILL BE OPENED ON CONTRACTS WITHIN EACH OF THESE GROUPS ACCORDING TO THE FOLLOWING SCHEDULE:

SHIPMENTS DUE PRIOR TO: L/C'S WILL BE OPENED BY:
NOVEMBER 30, 1974 (PERIOD I) MAY 15, 1975
FEBRUARY 28, 1975 (PERIOD II) JUNE 15, 1975
MAY 31, 1975 (PERIOD III) JULY 15, 1975
JULY 31, 1975 (PERIOD IV) AUGUST 15, 1975

(E) WITHIN EACH TYPE OF COTTON THE CONTRACTS WILL BE LISTED BY DATE OF SALE, WITH THE OLDEST DATES LISTED FIRST.

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PAGE 03 STATE 077228

(F) WITHIN THE PERIODS SPECIFIED IN PARA 3 (C) AND (D) ABOVE, A MILL MAY OPEN LETTERS OF CREDIT FOR ANY TYPE OF COTTON WHICH THE MILL HAS ON CONTRACT. WITHIN EACH TYPE OF COTTON INDIVIDUAL MILLS WILL OPEN LETTERS OF CREDIT ON THE OLDEST CONTRACTS FIRST.

"(4) A LIST OF OUTSTANDING SALES (CONTRACTS) FOR THE CURRENT COTTON MARKETING YEAR, ORGANIZED IN ACCORDANCE

WITH THE CATEGORIES SPECIFIED IN PARAGRAPHS 3 (A) THROUGH (F), IS ATTACHED AS AN ANNEX. THIS LIST IS AS COMPLETE AS WE CAN NOW MAKE IT. HOWEVER, IT IS UNDERSTOOD THAT CONTRACTS WHICH MEET THE REQUIREMENTS OF PARAGRAPHS 1 AND 3 OF THIS LETTER SHALL BE ADDED AT A LATER DATE AT THE REQUEST OF THE GOVERNMENT OF THE PHILIPPINES OR THE GOVERNMENT OF THE UNITED STATES OF AMERICA.

"(5) THE PHILIPPINE GOVERNMENT WILL ARRANGE FOR

FINANCING TO BE PROVIDED FOR THE SALES OF U.S. COTTON LISTED IN THE ANNEX OF THIS LETTER, OR WILL ITSELF PROVIDE THE NECESSARY FINANCING, IN THOSE CASES WHERE THE SALES IN QUESTION CANNOT BE COVERED BY CCC CREDIT.

"(6) THE PHILIPPINE GOVERNMENT AGREES TO PROVIDE USDA, OFFICE OF THE ASSISTANT ADMINISTRATOR, COMMERCIAL EXPORT PROGRAM - AFTER ADDITIONAL CREDIT IS MADE AVAILABLE - WITH A LIST OF SALES (CONTRACTS) WHICH WILL BE USED BY THE USDA TO ALLOCATE ALL OUTSTANDING CCC CREDIT TO U.S. SHIPPERS. EACH SALE WILL BE LISTED UNDER THE NAME OF THE PURCHASING MILL. THE LIST WILL CONTAIN THE VALUE, NUMBER OF BALES AND THE NAME OF THE U.S. SHIPPER FOR EACH SALE. THE LIST WILL INCLUDE THE AMOUNT OF THE ALLOCATION TO BE RECEIVED BY EACH MILL AND IDENTIFY THE INDIVIDUAL SALES COMPRISING EACH ALLOCATION." END TEXT.

3. TO AVOID SUBSEQUENT MISUNDERSTANDING, THE FOLLOWING POINT SHOULD BE CONVEYED TO THE GOP WHEN THE TEXT OF THE LETTER IS DELIVERED.

(A) CCC CREDITS WILL BE PROVIDED IN LINE WITH THE REGULATIONS THAT GOVERN ALL CCC CREDIT. ONE PROVISION LIMITED OFFICIAL USE

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PAGE 04 STATE 077228

OF THESE REGULATIONS IS THAT LETTERS OF CREDIT BE ISSUED BY A U.S. OR CCC-APPROVED BANK, AND THAT AT LEAST 10 PERCENT OF EACH LETTER OF CREDIT REGISTERED UNDER GSM-4 REGULATIONS MUST BE GUARANTEED BY A U.S. BANK FOR COMMERCIAL RISKS ONLY;

(B) THE LETTER REQUESTED FROM THE GOP IS NOT RPT NOT A PART OF CCC REGULATIONS BUT RATHER WILL SERVE AS AN EXPRESS STATEMENT OF THE GOP'S UNDERTAKING REGARDING THE CCC CREDITS;

(C) THE DETAILED SCHEDULE DISCUSSED IN PARA 3 (3) AND (4) OF THE PROPOSED DRAFT LETTER IS DESIGNED TO GIVE MILLS AS MUCH FLEXIBILITY AS POSSIBLE IN CHOOSING THE TYPE RPT TYPE COTTON WHICH THEY WISH TO UTILIZE FIRST.

IT IS ALSO INTENDED TO INSURE THAT OVERDUE CONTRACTS ARE LIQUIDATED AT A REASONABLE RATE, WITH THE OLDEST CONTRACTS (WITHIN EACH TYPE OF COTTON) BEING LIQUIDATED FIRST.

(D) THE ASSURANCES REQUIRED ARE NECESSARY TO MINIMIZE THE POSSIBILITY OF MILLS REFUSING TO UTILIZE THE CREDIT LINES MADE AVAILABLE TO THEM AND TO ASSURE A RAPID SOLUTION TO THE CONTRACT PROBLEM.

(E) YOU MAY WISH TO REASSURE FILIPINOS THAT PROVISION IN PARA 3 (4) THAT CONTRACTS MAY BE ADDED TO ANNEX WILL

BE USED SPARINGLY BY USG AND ONLY WHEN DATE OF SALE OF CONTRACT IS PRIOR TO AUGUST 1, 1974 AND DATE OF DELIVERY PRIOR TO JULY 31, 1975. PROVISION IS INTENDED TO ALLOW FOR POSSIBLE INADVERTENT OMISSIONS OF ELIGIBLE CONTRACTS FROM COMPLICATED ANNEX. WE EXPECT FEW IF ANY OMISSIONS, HOWEVER.

4. I WOULD APPRECIATE IT IF YOU WOULD DELIVER TEXT CITED ABOVE WITH ANNEX, WHICH WAS PREVIOUSLY SENT EMBASSY, TO INSURE THAT GOP APPRECIATES CONTINUED HIGH LEVEL U.S. CONCERN.

5. FYI. WE HAVE ASKED THAT THE ASSURANCES BE CONTAINED IN A LETTER FROM GOP BECAUSE WE WISH TO AVOID AN EXCHANGE LIMITED OFFICIAL USE

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PAGE 05 STATE 077228

OF LETTERS BETWEEN GOP AND USG, THUS POSSIBLY RAISING QUESTIONS AS TO WHETHER USG WAS ASSUMING COMMITMENTS APART FROM EXTENSION OF CCC CREDITS. END FYI.

6. YOU MAY WISH TO POINT OUT THAT 30 MILLION CCC CREDITS SET ASIDE FOR PHILIPPINES IS LARGER, IN COMPARISON WITH VALUE OF CONTRACTS LISTED IN ANNEX, THAN FOR EITHER KOREA OR TAIWAN (NO ANNEX EXISTS YET FOR THAILAND). IN ADDITION, LEVEL OF CCC CREDIT FOR COTTON IN FY 1975 WILL BE CONSIDERABLY HIGHER FOR PHILIPPINES THAN IN RECENT YEARS WHEN LEVELS WERE AS FOLLOWS: 5.9 MILLION, FY 72; 13.5 MILLION, FY 73; 4.6 MILLION, FY 74. NO PL-480 COTTON HAS BEEN PROVIDED KOREA, ROC OR THAILAND THIS FISCAL YEAR.

7. FYI. CONSIDERABLE FEELING EXISTS IN WASHINGTON CIRCLES THAT GOP SHOULD SEE THAT CONTRACTS HONORED WITHOUT RECEIPT ANY ADDITIONAL CCC CREDITS ABOVE \$20 MILLION ALREADY RECEIVED. IN EFFORT ATTAIN PROMPT ACCORD, HOWEVER, WE WERE ABLE TO OBTAIN AGREEMENT THAT YOU COULD OFFER UP TO ADDITIONAL \$10 MILLION CCC CREDITS. WE LEAVE NEGOTIATING TACTICS RE AMOUNT OF INITIAL OFFER TO

EMBASSY'S JUDGMENT. END FYI.

8. OUR PROPOSAL IS AIMED AT CONTRACTS WRITTEN PRIOR TO AUGUST 1, 1974, BECAUSE 1) THESE CONTRACTS COVER THE HIGHEST PRICED COTTON, AND CCC CREDIT WILL BE PARTICULARLY HELPFUL TO MILLS HONORING THESE CONTRACTS. 2) BYAUGUST 1, 1974, IT WAS CLEAR THAT COTTON PRICES AND THE DEMAND FOR TEXTILES WERE DECLINING. THUS, BOTH SELLER ANDBUYER WERE BETTER ABLE TO CALCULATE THE RISKS INVOLVED IN NEW SALES.

9. AS DISCUSSED REF (B), WE SEE NO BASIS FOR EXCLUDING FROM ASSURANCES TWO MILLS ACCOUNTING FOR ABOUT 34 OF TOTAL COTTON PAST DUE. IT IS DIFFICULT TO FORESEE WHAT CRITERIA WE CAN USE TO REMOVE VALID CONTRACTS FROM ANNEX.
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